

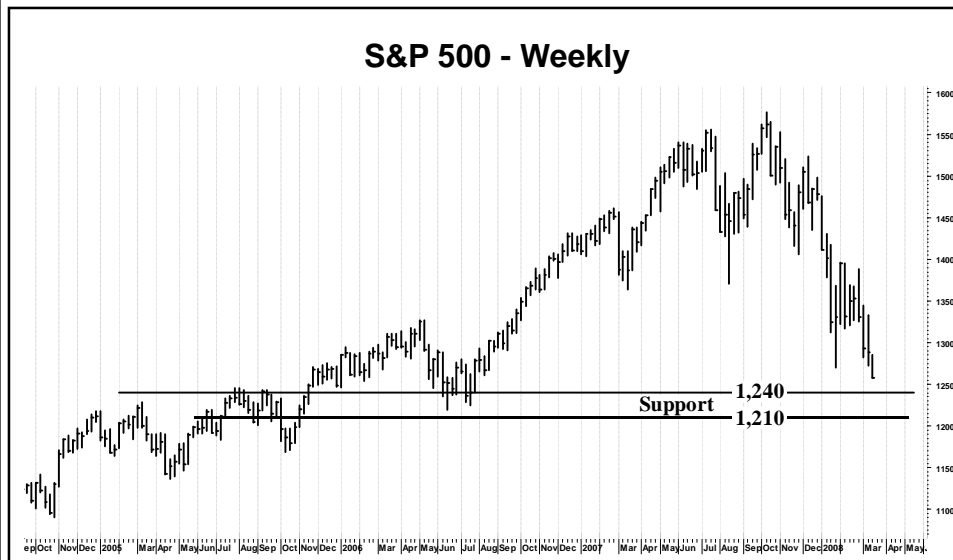
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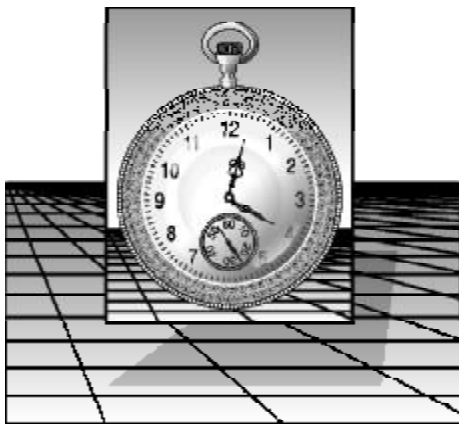
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Heading For Some Adjustments



The next issue will be published April 2.

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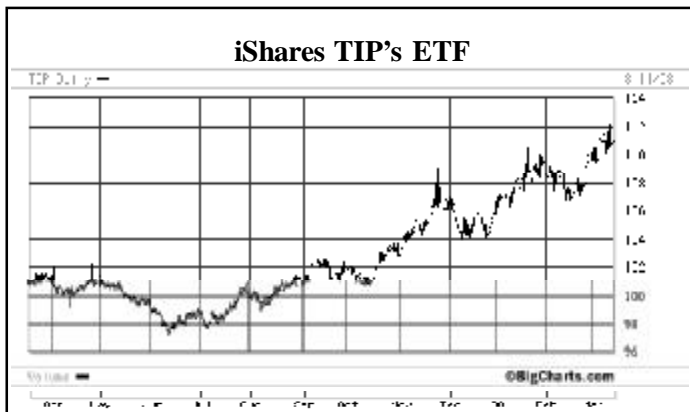
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The stock market has been able to serve up something for everyone lately. On March 11, the market put in one of its biggest up days in five years. It failed to follow through the next day, and it “deep sixed” the following morning - only to recover and close on the plus side again. Then prices opened a bit better, only to get hammered by bad news concerning Bear Stearns (is there some omen in the Bear part?). Anyway, once the smoke cleared, the averages worked back up on the day and ended with a gain for the week. This week opened with Bear Stearns being bought out for \$2 a share ... and more panic. It’s enough to send a guy out for Dramamine!

Nevertheless, I am suspicious that we should be looking for a reaction - a rally. Prices are at a critical juncture, as you can see on the chart above. There should be support at the 1,210 to 1,240 level in the S&P. If prices can’t hold there and put a couple of weeks on the up side, there will definitely be blood in the streets. My guess is that prices will bounce, but our long term strategy over the last few years has been to avoid financial/paper assets and invest in commodity-advantaged positions. I think this strategy is beginning to prove itself as we see the economy enter a recession while the dollar falls and commodity prices rise.

It’s 1973 all over again - high energy prices, inflation coming on stronger by the week, the dollar getting trashed, gold on the rise, and the stock market looking perilous. Take heed. If we get a rally in the popular averages here, it will be a gift. It might be your last chance to liquidate any financial/paper assets you may still hold that are not advantaged by higher commodity prices.

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Crude oil at \$110.00, debt problems spilling over the economy, and no recovery on the horizon for the housing industry all point to a recession. The scenario has the market feeling risk averse, and this has brought some energy issues down. Refiners are an example. The fear is that a recession will greatly decrease demand for fuel.

One has to ask why crude oil is \$110 and gold is \$1,000 if a U.S. recession is of any matter to commodity prices. The commodity market itself - which discounts and anticipates - is telling us that a recession will not dampen

rising commodity prices. I think the energy laggards are good prospects for your portfolios. Use weakness to accumulate. Regardless of near term periods of profit-taking, crude will be higher by this October.

General market weakness will tend to drag down commodity-advantaged stocks in its wake. I am particularly interested in picking up some income investments here. **Gabelli Global Gold** (GGN-AMEX-\$28.23) and **Blackrock Global Energy** (BGR-NYSE-\$29.12) are both down and are near or under their respective buy prices of \$28.00 and \$29.50, respectively. If the market panics and the S&P plunges to its lower support level, GGN may drop as low as \$26.00 and Blackrock as low as \$27.00, but both are purchase candidates as we go to press. We all know that a dividend is a percentage, per annum, perhaps. Dividends are not guaranteed. However, these two are sporting yields of better than 5%, and they are a lot better looking than what we will be seeing from somewhat suspect money market funds after the Fed drops rates further.

The bond market has been as erratic as the stock market lately ... but this is strange. A sale of \$9 billion in Treasuries in early February was pulled off at a yield of 4.45%. This was reported as the lowest yield ever, and all this with the dollar in the tank. The article I read said that foreign demand was “virtually non-existent.” I thought we were relying on our foreign friends to finance our lifestyle. Where did they go? According to *Bloomberg News*, “indirect bidders bought 10% versus 31% in the prior auction.” So, what is up with this? Who bought the bonds at the lowest yield ever? Rounding up the usual suspects leaves us with only one possible perp – the Fed.

Running interest rates ever lower - below the true rate of inflation - and buying the Treasury's excess debt will keep the inflation fires burning. So, here is a new idea for you: TIPS - Treasury Inflation Protected Securities. Next month, I will go into what TIPS are all about and give you some buying – well, tips. In the meantime, if you would like a simple approach, take a look at the **iShares TIPS ETF** (TIP-NYSE-\$109.84). I would shoot for purchases at \$106.00 on a correction. That would give you an indicated yield of about 5.8% ... and the ETF pays monthly.

Gold has been relentless, and it certainly has not had the correction I was looking for. Retrospectively, there have been plenty of fundamental reasons for the persistent strength. The dollar is in a swan dive, some brokerage firms are on the brink of bankruptcy, and new debt problems are cropping up everywhere. It is the environment conducive to safe havens. Maybe gold will never correct (I doubt that), but the most prudent approach at this point is to hold those positions we were able to accumulate last August when prices were falling back to our buy points. If the markets were linear, everyone would be rich. From a trading standpoint, the dollar index is very oversold, with an RSI of 16. A prudent trader would be looking for a bounce, and a dollar bounce will cool off gold.

We are likely nearing a period of temporary adjustment in the markets. A lot of folks are short; and if something spooks the shorts, the rally will look very convincing. Short covering always makes things look better than they are. Remember to temper your greed. “Be fearful when others are greedy and greedy when others are fearful” – the sage of Omaha. We need to be looking for some adjustments in both the stock market and in the commodity sector. The rally in stocks will serve up an opportunity to clean up your portfolios. The pause in commodity prices will allow us to make some purchases without assuming undue risk.